

Message Text

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ACTION EUR-12

INFO OCT-01 EA-09 NEA-10 IO-10 ISO-00 AGR-10 CEA-01

CIAE-00 DODE-00 EB-07 FRB-01 H-02 INR-07 INT-05 L-03

LAB-04 NSAE-00 NSC-05 PA-02 AID-05 CIEP-02 SS-15

STR-04 TAR-01 TRSE-00 USIA-15 PRS-01 SP-02 FEAE-00

OMB-01 XMB-04 /139 W

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R 191820Z DEC 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 7607

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY NEW DELHI

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

AMCONSUL BELFAST

AMCONSUL EDINBURGH

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDEL MTN GENEVA

USDOC WASHDC

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DEPARTMENT PASS TREASURY AND FRB

E.O. 11652: N/A

TAGS: ECON, UK

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SUBJECT: ECONOMIC DEVELOPMENTS - WEEK ENDING DEC. 19

BEGIN SUMMARY: THE CHRYSLER RESCUE OPERATION AND THE ANNOUNCEMENT OF SELECTIVE IMPORT CONTROLS PUNCTUATED THE BEGINNING OF BRITAIN'S LONG HARD WINTER. THE BEHAVIOR OF INDUSTRIAL PRODUCTION AND RETAIL SALES LENDS WEIGHT TO THE CONCLUSION THAT THE CURRENT RECESSION HAS NOW BOTTOMED OUT. THE DECLINE IN THE RATE OF INCREASE IN AVERAGE EARNINGS CONFIRMS THE SPREADING IMPACT OF THE SIX POUND WAGE LIMIT. MOREOVER, THE ESTIMATE OF THE SIZE OF GOVERNMENT BORROWING HAS ALSO BEEN REDUCED INDICATING THAT THE GAP BETWEEN REVENUES AND EXPENDITURES IS WIDENING LESS RAPIDLY THAN IT HAD BEEN EARLIER IN THE YEAR.

1. AVERAGE EARNINGS. THE INDEX OF AVERAGE EARNINGS ROSE 0.6 PERCENT IN OCTOBER TO A LEVEL OF 239.3 (1970 EQUALS 100) FROM THE SEPTEMBER FIGURE OF 237.7. IN THE THREE MONTH PERIOD THROUGH OCTOBER, AVERAGE EARNINGS ROSE AT AN ANNUAL RATE OF 13.2 PERCENT. THIS REPRESENTS A CONSIDERABLE IMPROVEMENT OVER THE 24.8 PERCENT INCREASE IN AVERAGE EARNINGS WHICH OCCURRED BETWEEN OCTOBER 1974 AND OCTOBER 1975. THE SLOWDOWN IN AVERAGE EARNINGS IS ATTRIBUTABLE BOTH TO THE SEVERITY OF THE RECESSION AND THE IMPACT OF THE GOVERNMENT'S 6 POUND WAGE LIMITATION.

THE OTHER MAJOR INDICATOR OF LABOR COSTS IS THE INDEX OF BASIC WAGES. THIS ROSE BY 4.1 PERCENT IN NOVEMBER TO 193.6 (JULY 31, 1972 EQUALS 100) FROM ITS OCTOBER LEVEL OF 185.9. THIS WAS THE LARGEST INCREASE SINCE LAST MARCH AND IS LARGELY DUE TO HIGHER MINIMUM WAGES IN THE ENGINEERING INDUSTRY. SINCE THE WAGE INDEX IS BASED ONLY ON MANUAL WORKERS' PAY, IT COVERS A NARROWER SPECTRUM THAN DOES THE AVERAGE EARNINGS INDEX. IT IS THUS A LESS RELIABLE GUIDE TO MOVEMENTS IN ACTUAL LABOR COSTS. NEVERTHELESS THE WAGE INDEX IS NOW 26.4 PERCENT HIGHER THAN A YEAR AGO, UP FROM THE 25.9 PERCENT RATE OF INCREASE IN OCTOBER BUT STILL WELL BELOW THE PEAK RATE OF INCREASE OF 33.5 PERCENT RECORDED IN MAY.

2. INDUSTRIAL PRODUCTION. THE INDEX OF INDUSTRIAL PRODUCTION (1970 EQUALS 100) ROSE FOR THE SECOND CONSECUTIVE

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MONTH IN OCTOBER STANDING AT A LEVEL OF 101.2. THIS IS A INCREASE OF 0.7 PERCENT OVER THE REVISED SEPTEMBER FIGURE OF 100.5. THE REVISIONS SHOW THAT INDUSTRIAL PRODUCTION APPEARS TO HAVE HIT BOTTOM IN AUGUST WHEN THE INDEX REGISTERED 98.8. FOR THE THREE MONTHS ENDING IN OCTOBER PRODUCTION LEVELS WERE VIRTUALLY UNCHANGED BOTH ON AN OVERALL BASIS AND FOR MANUFACTURING INDUSTRIES WHICH ARE GIVEN A WEIGHTING OF 75 PERCENT ON THE INDEX. FOR THE YEAR END-

ING IN OCTOBER INDUSTRIAL PRODUCTION WAS DOWN BY 4.9 PERCENT. THE UPWARD REVISIONS IN THE DATA LEND CREDENCE TO THE BELIEF THAT THE CURRENT RECESSION REACHED ITS NADIR DURING THE THIRD QUARTER.

3. RETAIL SALES. THE NOVEMBER INDEX OF RETAIL SALES (1971 EQUALS 100) WAS PROVISIONALLY ESTIMATED AT 106.5 UP 1.1 PERCENT FROM THE OCTOBER LEVEL OF 105.3. ON A VALUE BASIS RETAIL SALES WERE 16 PERCENT ABOVE THE NOVEMBER 1974 LEVEL. THE VOLUME OF RETAIL SALES HAS SHOWN LITTLE MOVEMENT SINCE AUGUST AND THE NOVEMBER FIGURE IS 5.9 PERCENT BELOW THE LEVEL ACHIEVED IN NOVEMBER 1974. THIS SIDEWAYS MOVEMENT IN THE INDEX INDICATES THAT THE DECLINE IN CONSUMER EXPENDITURE DURING THE FIRST HALF OF 1975 HAS LARGELY RUN ITS COURSE.

4. PUBLIC SECTOR BORROWING REQUIREMENT. LATEST OFFICIAL

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ESTIMATES INDICATE THAT THE PUBLIC SECTOR BORROWING REQUIREMENT (PSR) FOR THE CURRENT FISCAL YEAR ENDING IN UNCLASSIFIED

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MARCH IS LIKELY TO BE SOMEWHAT LOWER THAN ANTICIPATED BY MANY IN THE FINANCIAL COMMUNITY. THE BELIEF WAS WIDESPREAD THAT THE PSBR WOULD EXCEED THE BUDGETED AMOUNT OF 9 BILLION POUNDS BY AT LEAST 3 BILLION POUNDS. THE LATEST FIGURES RELEASED BY THE GOVERNMENT SEEM TO INDICATE THAT THE PSBR IS NOW LIKELY TO FALL BETWEEN 11 AND 12 BILLION POUNDS. THESE FIGURES, HOWEVER, DO NOT TAKE INTO ACCOUNT EXPENDITURES TO WHICH THE GOVERNMENT IS COMMITTED AS A RESULT OF THE CHRYSLER RESCUE OPERATION.

5. EXCHANGE RATE AND GOLD:

(DATES)	12/11	12/18	CHANGE
EXCHANGE RATE	\$2.0220	\$2.0220	UNCHANGED
EFFECTIVE DEPRECIATION			
(PERCENT)	30.0	30.1	WIDENED 0.1
GOLD	\$140.25	\$138.75	DOWN \$1.50

6. FORWARD DISCOUNT ON STERLING:

(DATES)	12/11	12/18	CHANGE
1 MONTH	0.85	0.90	UP 0.05
3 MONTHS	2.32	2.50	UP 0.18
6 MONTHS	4.30	4.50	UP 0.20

(ALL FIGURES IN CENTS)

7. EURODOLLAR INTEREST RATES:

(DATES)	12/11	12/18	CHANGE
1 MONTH	6-1/8	6	DOWN 1/8
3 MONTHS	6-5/8	6-1/2	DOWN 1/8
6 MONTHS	7-3/8	7.3/8	UNCHANGED

8. LOCAL AUTHORITY DEPOSIT RATES:

(DATES)	12/11	12/18	CHANGE
1 MONTH	10-15/16	11	UP 1/16
3 MONTHS	11-1/8	11-1/8	UNCHANGED
6 MONTHS	11-15/16	11-1/4	DOWN 1/16

9. THE MINIMUM LENDING RATE REMAINS UNCHANGED AT 11-1/2
PERCENT AS OF FRIDAY, DECEMBER 19.

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